

Memorandum

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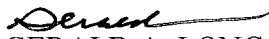
To: LISA KUNZMAN
Chief
Division of Equipment

Date: February 3, 2009

File: P3000-374

CLARK PAULSEN
Chief
Division of Accounting

TERESA RIX
Acting Deputy District Director
Administration
District 6

From: 
GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: Final Audit Report – Home Storage Permit

Attached is Audits and Investigations' final audit report on Home Storage Permit. Your responses have been included as part of our final report.

Please provide our office with status reports on the implementation of your audit finding dispositions 60, 180, and 360 days subsequent to the report date. If all findings have not been corrected within 360 days, please continue to provide status reports every 180 days until the audit findings are fully resolved.

We thank you and your staff for their assistance provided during this audit. If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or me at (916) 323-7122.

Attachment

c: Will Kempton, Director
Randell H. Iwasaki, Chief Deputy Director
Cindy McKim, Chief Financial Officer
Michael Miles, Deputy Director, Maintenance and Operations
Julie Dunning, Deputy District Director, Administration, District 10
Lorna Rice, Deputy District Director, Administration, District 11
Laurine Bohamera, Chief, Internal Audits, Audits and Investigations
Walter Menda, Chief, Office of Administration
Steve Kotani, Fleet Administrator, Office of Administration

P3000-374
Home Storage Permit Audit
February 2009

Gerald A. Long
Deputy Director
Audits and Investigations
California Department of Transportation

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Summary

Audits and Investigations (A&I) has completed a statewide audit of the Home Storage Permit (HSP) Program. The purpose of the audit was to review HSP policies, procedures, and guidelines and to evaluate internal controls to determine whether the program is in compliance with established State and California Department of Transportation (Department) policies, procedures, and guidelines.

Our audit disclosed that the Department's established policies, procedures, guidelines, and internal controls with respect to the HSP Program are generally adequate. However, we found deficiencies in the following areas:

- Overall Administration of the Home Storage Permit Program Needs Improvement
- Inadequate Controls Over Permit Issuance and Renewal
- Home Storage Permit Guidelines and Communication Need Strengthening
- Questionable Permit Issuance
- Noncompliance With Personal Use of State Vehicle Reporting Requirements
- Recording and Management of Vehicle Usage Needs Improvement
- Inaccurate Tracking of Home Storage Permits
- Noncompliance With Permits Held by Survey Employees in the Central Region

Background

The Division of Equipment (DOE) is responsible for developing, publishing, maintaining, and administering departmental policies and procedures to assure the Department's fleet users comply with HSP regulations, policies, and guidelines. HSPs are required where, in use for State business, it is in the best interest of the State to allow an employee to park a State-owned or commercially leased motor vehicle in a secured location at or near the employee's home. Permits are issued for the following reasons:

- Incident and Emergency Response Preparedness
- Construction and Construction Support
- Operational Efficiency

Home storage is defined as storing any State-owned or commercially leased vehicle at an employee's home or in the immediate vicinity of their home for more than 72 nights over a 12-month period, or for more than 36 nights over any three-month period. Nights may be non-consecutive and include weekends.

**Background
(Continued)**

DOE serves as the administrator for the Department's HSP Program, which includes monitoring for departmental compliance. It responds to inquiries from external agencies and submits HSP reports as mandated by the Department of General Services (DGS). DOE has an HSP manager, who is responsible for acting as the administrator of the HSP Program. The manager's responsibilities include receiving copies of all new and renewed HSPs, conducting a periodic audit of all HSPs to assure proper recordkeeping and retention, and submitting an annual report to DGS, Office of Fleet Administration. In addition, within the Department, there are designated HSP coordinators who maintain all records associated with the acquisition, use, and justification of HSPs.

A&I performed a statewide audit of the HSP Program (P3000-0258) in 1994, and found that significant improvements were necessary to strengthen the requirements for effective management of vehicle usage and home storage. In July 1995, the Deputy Director of the Administration Program issued HSP Procedural Standards for the HSP Program based on our audit recommendations. However, subsequent revisions were made to the HSP procedures in 2000 that eliminated the controls added in the July 1995 HSP Procedural Standards.

**Objectives,
Scope, and
Methodology**

We performed the audit in accordance with the International Standards for the Professional Practice of Internal Auditing. The objectives of the audit were to determine whether:

- The HSP Program has adequate policies, procedures and guidelines in place.
- Policies are clearly communicated to those who have responsibility for the program.
- Permit issuance is in compliance with the criteria specified in the Vehicle Home Storage Permit Guidelines.
- Permits are warranted, current, and justified on an on-going basis.
- Permits are updated or revoked when circumstances change.
- Fleet users are in compliance with the Personal Use of State Vehicles Form requirement.
- Fleet users are in compliance with the HSP policies, procedures, and guidelines.
- Permits are properly monitored and administered within the Department.

The audit covered the period of July 1, 2006, through November 30, 2007, and focused on internal controls and procedural compliance as they relate to the HSP Program. Our audit consisted of tests of judgmentally selected HSPs in Districts 6, 10, and 11. We

**Objectives,
Scope, and
Methodology
(Continued)**

selected these districts based on the high number of permits per lane mile, for which the District is responsible for maintaining, and the high number of permits per active employee from each district, where no maintenance review of HSPs had been recently performed.

Conclusion

Our audit found that the Department's established policies, procedures, guidelines, and internal controls with respect to the HSP Program are generally adequate. However, the audit disclosed the following :

- Overall Administration of the Home Storage Permit Program Needs Improvement
- Inadequate Controls Over Permit Issuance and Renewal
- Home Storage Permit Guidelines and Communication Need Strengthening
- Questionable Permit Issuance
- Noncompliance With Personal Use of State Vehicle Reporting Requirements
- Recording and Management of Vehicle Usage Needs Improvement
- Inaccurate Tracking of Home Storage Permits
- Noncompliance With Permits Held by Survey Employees in the Central Region

**Views of
Responsible
Officials**

We requested responses from the Chief of DOE and from the Deputy District Director of Administration, District 6, for the Central Region's specific finding. These officials have, in general, acknowledged the findings and recommendations, except District 6 did not agree with Finding 8. Please see the Attachments for complete responses.



GERALD A. LONG
Deputy Director
Audits and Investigations

August 28, 2008
(Last Day of Audit Field Work)

FINDINGS AND RECOMMENDATIONS

STATEWIDE

**Finding 1 -
Overall
Administration of
the Home Storage
Permit Program
Needs
Improvement**

We found the overall administration and monitoring of the Home Storage Permit (HSP) Program needs improvement. Without adequate administration and monitoring, the Department runs the risk of employees holding permits for minimal or no work-related need, which increases the risk of waste and abuse of limited State resources. The deficiencies identified in the administration and monitoring of the HSP Program have resulted in inadequate controls over permit issuance and renewal, questionable permit issuance, noncompliance with personal use of State vehicle reporting requirements, and weaknesses over the recording and management of vehicle usage.

These conditions, in part, are due to the inherent structure of the HSP Program. While DOE is responsible for developing and administering departmental policies and procedures to ensure the Department's fleet users comply with HSP regulations, policies, and guidelines, supervisors and managers throughout the Department are responsible for approving the permits. Controls over permit issuance and renewal fluctuate between districts depending on management's emphasis on the HSP Program. Therefore, continuous monitoring and communication are critical to ensuring adequate controls are in place for the HSP Program.

The specific findings and recommendations are presented in Findings 2-7 below.

Recommendation

We recommend that DOE improve the overall administration and monitoring of the HSP Program.

DOE Response

DOE agreed with the finding and is working towards implementing the recommendation. Please see Attachment 1 to this report for the complete response.

**Finding 2 –
Inadequate
Controls Over
Permit Issuance
and Renewal**

We found the HSP Program lacks adequate controls and monitoring over permit issuance and renewal. Without adequate controls and monitoring, HSPs may be used for unintended purposes.

Specifically, we found that permit requests are not required to be identified by permit type (A, B, or C). The HSP Guidelines (Guidelines) state that there are three types of permits issued by the Department. The permit type specifies the applicable requirements.

**Finding 2 -
(Continued)**

- Type A Permits are to be issued for incident and emergency response preparedness. However, there are currently no requirements for any documentation to be maintained to justify the need for a Type A Permit. In the past, logs were required for Type A Permits. These logs provided sufficient information to validate the permit holder's need for the HSP. However, this requirement was eliminated in 2000. As a result, the tool to justify the need for a Type A Permit is no longer required. While some areas continue to maintain logs, they are not consistently used throughout the Department.

In addition, the Guidelines state, issuance of Type A Permits shall be based on minimizing the Department response time for after-hour incidents. A primary criterion for making the determination is the consideration of typical travel times from the permittee's residence versus an intermediary stop to obtain a State vehicle. However, the Guidelines fail to address the distance and time factor more fully, and no documentation is required to substantiate that the employee would respond promptly.

- Type B Permits are issued for Construction and Construction Support and a Cost Benefit Analysis (CBA) is required. During fieldwork, a frequent comment heard from Type B Permit holders to justify Type B Permits was the "cost benefit to the State" that they were providing. However, the CBA form lacks instructions for completion and the formula for making the CBA determination is flawed for the following reasons.
 - a) The formula used contains outdated costs for the use of vehicles.
 - b) The formula incorrectly reflects a departmental parking-cost savings when the vehicle is stored at home, and not at a State facility, due to the Department of General Services' (DGS) parking charges. Parking expense is generally a fixed cost, which means the Department still incurs the expense even if the vehicle is stored at home.
 - c) The formula does not consider the probability of the nearest work site location versus the furthest location.
 - d) There is no consideration of whether the employee is on per diem. If on per diem, the costs of per diem are not considered.

In addition, the CBA is confusing. For example, the formula calculates the travel distance between work site and storage location, and from home to work site. The nearest and furthest location

**Finding 2 -
(Continued)**

distances are added together. However, there is no explanation as to why they are added together and how they factor into the CBA. In practice, given the lack of rules and guidelines for the completion of the CBA form and the inaccuracies in the CBA formula, one can generally calculate the “benefit to State” to be greater than the “cost to State.”

- Type C Permits are issued for operational efficiency. However, there is no documentation requirement to substantiate the operational efficiency to be achieved by issuing a Type C Permit, and no supporting documentation is maintained to substantiate the need.

Currently, the HSP application form, STD. 377, does not require the permit type to be identified. Therefore, the HSP requestor is not identifying the type of permit he or she is requesting. As a result, it is not clear if the HSP approver and HSP coordinator are evaluating the HSP request using the appropriate criteria. Instead, DOE determines the permit type based on what is described on the permit upon receiving it from the HSP coordinator.

We also found that 19 percent (10 of 53) of the permits tested lacked the required second-line supervisor approval. The majority of non-compliance occurred by permit holders who were in upper management positions. The California Code of Regulations (CCR), Title 2, Division 1, Chapter 3, Subchapter 1, Article 15, section 599.808(d) requires that the HSP be signed by the Department head, a deputy, or the chief administrative officer. Furthermore, Deputy Directive (DD-28-R2) and the Guidelines state that the approval must be no lower than the second-line supervisor.

In addition, the HSP Program has not established a process for canceling or revoking permits when circumstances change and the permit is no longer needed. The Department’s Director issued a memo on Vehicle HSPs dated December 14, 2005. The memo states that supervisors are responsible for ensuring permit assignments are justified on an on-going basis and that when circumstances change, the permit be updated or revoked.

Finally, districts and divisions did not perform periodic reviews as required by the Guidelines. The Guidelines require a periodic review of the HSPs to determine whether the job assignment in question still necessitates an HSP, and the HSP is in compliance with the HSP requirements. In addition, the HSP manager did not perform periodic

**Finding 2 –
(Continued)**

reviews of HSPs with the purpose of assuring proper record keeping and retention, as required by the Guidelines.

The Department is accountable for the proper use of State-owned or commercially leased vehicles by departmental employees consistent with CCR, section 599.808, et seq.

Currently, the Department runs the risk of permits being issued to employees without a valid justification. A permit can be viewed as a fringe benefit provided to some employees and not to others. The lack of documented justification and approval for permits issued can lead to the perception by the public and other State employees that the Department's employees are personally commuting in State vehicles. Furthermore, it provides the opportunity for misuse of limited State resources.

Recommendation

We recommend that DOE:

1. Establish and maintain adequate controls and monitoring over permit issuance, continuing permit need, and renewal, including:
 - Limit the use of HSPs by requiring that permit requests be evaluated and approved based on the established criteria for the type of permit being requested
 - Re-evaluate if all existing permits issued are in the best interest of the State, contain the required approvals per the CCRs, and have the adequate documentation to substantiate issuance.
 - Work with the districts to ensure that the required periodic HSP reviews actually occur and that copies of the review reports be provided to management and DOE.
2. Revise the Guidelines to require adequate documentation to substantiate permits issued, and to be consistent with the CCRs, as follows:
 - Incorporate the consideration of timely response to emergencies when issuing permits.
 - Revise the CBA to reflect a true "cost benefit to State" that is adequately supported.
 - Establish procedures to follow when permits need to be cancelled, revoked, or updated due to a change in the permit holder's circumstances.
 - Require permit type identification at the time the request for permit is submitted.

DOE Response

DOE agreed with the finding and is working towards implementing the recommendations. Please see Attachment 1 to this report for the complete response.

**Finding 3 -
Home Storage
Permit Guidelines
and
Communication
Need
Strengthening**

The current Guidelines do not adequately document the HSP requirements and procedures; and they are not effectively communicated to HSP coordinators, permit requestors, permit holders, and approving supervisors. Specifically, the Guidelines lack requirements for documentation to identify permits by type, to provide justification based on permit type for permit approval and issuance; and to provide a process for cancellation or revocation of permits.

In addition, the Guidelines do not clearly define the roles of the HSP coordinator in the submittal of the Personal Use of State Vehicle Form (PM-0041) by permit holders; provide information to permit holders and supervisors related to the exemption to submitting a PM-0041; and communicate the requirement to use the Online Vehicle Usage System (Car Tags) to record vehicle usage. Many HSP coordinators or their contacts were not aware of their responsibility to review Car Tags for mileage usage relating to the HSP, and to ensure that PM-0041 was submitted to the Division of Accounting (DofA). We noted that for 42 percent (20 of 48) of permits tested, the responsible HSP coordinator did not review and determine whether vehicle mileage was logged into Car Tags, and for 70 percent (36 of 53) of permits tested, the responsible HSP Coordinator did not ensure the submission of a PM-0041 as required.

The Guidelines state the HSP coordinator is to maintain the records associated with the acquisition, use, and justification for HSPs, including vehicle mileage logged electronically into Car Tags. The DD-28-R2 directs, under the responsibilities for the HSP coordinator, that all required PM-0041s be submitted monthly to the DofA, Travel Policy Section.

Furthermore, the HSP requirements are not widely understood and information related to the HSP Program is not widely distributed. For example, our testing revealed that one HSP coordinator was not aware of the Guidelines until two weeks prior to our audit fieldwork; one Branch Chief, who had been working in his capacity for 18 months, was not aware that he was responsible for the HSP Program; another District Branch Chief had minimal involvement in the process and was not familiar with the Guidelines; and supervisors of permit holders were not aware of the Guidelines including the requirement for employees to submit a PM-0041 monthly, nor the responsibility to determine whether

**Finding 3 –
(Continued)**

their employee's personal use of State vehicle was taxable or whether a tax exemption applied.

Finally, the Guidelines do not emphasize that State vehicles should be used for official business only and that good judgment should always be used by employees when driving and parking State vehicles.

Good business practices dictate that employees be properly trained to enable them to properly perform their assigned duties. Program requirements need to be documented, distributed, and understood by those involved in the process; and an active role needs to be taken by management in managing any program that is under its responsibility.

Recommendation

We recommend that DOE:

1. Revise the Guidelines and forms to adequately document the HSP requirements and procedures, including clarifying the roles of the HSP coordinator in the submittal of PM-0041s and the monitoring of Car Tags.
2. Improve communication of the Guidelines throughout the Department and provide adequate training to all staff involved in the HSP Program, including HSP holders and approvers.
3. Educate HSP holders of their responsibility to represent the State in a professional and business-like manner. HSP holders should be courteous to other drivers on the road, drive in a safe and lawful manner, and not park State vehicles at locations that potentially could cause the Department negative exposure.

DOE Response

DOE agreed with the finding and is working towards implementing the recommendations. Please see Attachment 1 to this report for the complete response.

**Finding 4 -
Questionable
Permit Issuance**

Our audit results determined that in 38 percent (20 of 53) of the permits tested, the permit holder did not appear to have a justified or documented need for the permit. Conditions noted for questionable permits include:

- Maintenance Managers and Superintendents who had minimal recorded emergency call-outs and were listed as third, fourth, or fifth respondents for emergency situations. The Guidelines state that the mere possibility that an employee "on-call" may use the vehicle is not adequate justification.
- Managers who made a self-determination for the need to go out in the field, but are not listed as emergency respondents.

**Finding 4 –
(Continued)**

- Permit holders who claimed response to bridge emergencies as a justification when their office is the fourth contact, and only when major damage to bridges occurs.
- Many permit holders claimed the need for a permit due to frequent unplanned overtime; to minimize overtime; for night inspections; to reduce response time; and to start or end work the day before or after regular hours. However, we found that these were non-exempt employees who either had minimal overtime recorded or none at all; and had only worked regular dayshifts during our 17-month audit test period.
- Permit holder who lived a short distance from the vehicle storage facility, but claimed the permit was needed because some projects were closer to their personal residence than the storage facility. The permit holder claimed that travel from home to the job site would reduce mileage placed on the State vehicle and increase their presence at the job site.
- Permit need was due to limited storage at specific maintenance stations. However, we verified that the specific maintenance stations had ample, gated, and secure overnight parking.
- Permit holders claimed that parking was not secure. However, we determined that the facility was gated and that field engineers took vehicles home while non-assigned vehicles were stored overnight at the same facility.
- Permit holder claimed the need to be able to respond to an emergency at a departmental facility. However, the Deputy District Director of Administration, who was the permit holder's second-line supervisor, did not believe there was a need for a permit given that others in similar positions were not granted one.
- Permit holder claimed that a permit was needed to drive straight to and from the job site without stopping at the vehicle storage facility. However, this is not a valid reason for a permit according to the Guidelines.

In addition, we found some managers were adamant about providing HSPs to employees who did not appear to have a justified need for the permit.

DD-28-R2 states that HSPs are required where, in the use of State business, it is in the best interest of the State to allow an employee to park a State-owned or commercially leased motor vehicle in a secured location at or near the employee's home. Permits are issued for the following reasons: incident and emergency response preparedness, construction and construction support, and operational efficiency. The

**Finding 4 –
(Continued)**

issuance of questionable HSPs increases the risk of waste and abuse of limited resources and the Department's risk of negative exposure. Our audit testing evaluated the permits issued based on the Department's established criteria and Guidelines. However, given the current economic and transparent government environment, and the substantial increase of fuel costs, the Department should evaluate if the established criteria for allowing an employee to park a State-owned vehicle is in fact still in the best interest of the State.

Recommendation

We recommend that DOE:

1. Strengthen the controls over permit issuance and require adequate documentation to ensure permits are substantiated with valid reasons.
2. Work with district management to ensure staff, particularly at the managerial and supervisory level, have a justified need to hold an HSP.

DOE Response

DOE agreed with the finding and is working towards implementing the recommendation. Please see Attachment 1 to this report for the complete response.

**Finding 5 -
Noncompliance
With Personal Use
of State Vehicle
Reporting
Requirements**

Our audit disclosed that 91 percent (48 of 53) of permit holders tested did not complete and submit some or all of the PM-0041s for the audit test period of 17 months. Internal Revenue Service regulations generally consider that value of personal use of State-owned vehicles as taxable income, which must be reported to the State Controller's Office. As such, the Guidelines state that daily home to work travel via State-owned or leased vehicles by HSP holders, when not on per diem, shall be reported on a PM-0041. All permit holders are required to complete and submit a PM-0041 to their supervisor on the last working day of each month. The Guidelines also state that supervisors are responsible for signing and ensuring the PM-0041 is completed accurately and signed by the employee. However, our testing showed that only 9 percent (5 of 53) of permit holders tested submitted all of their PM-0041s.

In certain situations, employees can be exempt from being taxed on vehicle use. Supervisors must apply facts and circumstances on a case-by-case basis to determine taxable personal use and if tax exemptions apply. However, the Guidelines fail to clearly reference documentation on tax exemptions to PM-0041. According to the State Controller's Office Payroll Procedures Manual, exemptions exist. However, the audit noted that related information is not widely distributed or known. Employees that may be exempt from the tax may not be aware of this since documentation is not easily available.

**Finding 5 –
(Continued)**

In addition, DD-28-R2 and the Guidelines are confusing in regard to the HSP coordinator role in connection with PM-0041. DD-28-R2 states that a responsibility of the HSP coordinator is to ensure the PM-0041 is submitted to DofA, Travel Policy Section. However, the Guidelines do not specify such responsibility.

An HSP allows the permit holder to commute in a departmental vehicle that is maintained and fueled at the Department's expense. The cost of providing the vehicle for personal commute far exceeds the permit holder's obligation to pay tax on \$1.50 per one-way commute or on \$3.00 per round trip. The permit holder's personal financial benefit and the lack of enforcement of PM-0041 further increase the incentive for the improper use of an HSP.

Recommendation

We recommend that DOE work with district management to ensure the accurate and timely reporting of personal use of State vehicles.

DOE Response

DOE agreed with the finding and is working towards implementing the recommendation. Please see Attachment 1 to this report for the complete response.

**Finding 6 -
Recording and
Management of
Vehicle Usage
Needs
Improvement**

The Department utilizes Car Tags to record State vehicle usage. The audit found that the Department is not in compliance with the vehicle usage recording requirements, and Car Tags failed to be an effective management tool for vehicle usage in relation to the HSP Program.

Specifically, we found:

- Car Tags do not identify if a vehicle is used by an HSP holder, and there are no instructions for completing the storage location field. Vehicle usage reports by employee name can only be obtained through DOE. As a result, HSP reviewers are unable to efficiently perform their job duties.
- In our testing, we attempted to perform an analytical review of Car Tags, and found that the data cannot be used to monitor the HSP Program. Specifically, 57 percent (30 of 53) of permit holders sampled listed storage locations not related to their residence or did not enter information into Car Tags, so we were unable to determine the number of nights that the vehicle was stored at home.

CCR 599.807 states that records shall be completed on a daily basis. In practice, we found Car Tag entries ranging from weekly to semi-yearly.

**Finding 6 –
(Continued)**

Moreover, the usage of State vehicles is not monitored for HSP Program purpose. Consequently, the Department does not have a process to monitor employees with assigned vehicles without permits, but who should have obtained permits.

We also found that the Guidelines are not clear as to who is responsible for ensuring the accurate input and review of vehicle usage in Car Tags for HSP holders. The Guidelines state that the HSP coordinator will maintain all records associated with the acquisition, use and justification for HSPs, but they lack clarity regarding the review of the vehicle mileage logged electronically into Car Tags.

Recommendation

We recommend that DOE:

1. Implement new procedures for Car Tags to be used as an effective monitoring tool for the HSP Program, including providing instructions for completing storage location, usage and purpose of trip and enabling district staff access in obtaining vehicle usage reports.
2. Ensure accurate input of vehicle usage and ongoing monitoring of vehicle usage for HSP Program purposes.

DOE Response

DOE agreed with the finding and acknowledged our recommendations. Please see Attachment 1 to this report for the complete response.

DIVISION OF EQUIPMENT SPECIFIC

**Finding 7 -
Inaccurate
Tracking of Home
Storage Permits**

We noted two weaknesses within the DOE related to the tracking of HSPs. The weaknesses are:

- DOE does not have an inventory of all the permits issued within the Department. For example, DOE was not aware of HSPs in the Los Angeles and the Sacramento Legal offices. The permits were not going through DOE, and instead, were being mailed directly to the Department of General Services (DGS). Also, DOE was missing copies of 8 percent (4 of 53) of the HSP applications tested in the districts. The Guidelines state that a copy of every new or renewed permit must be sent to the HSP manager at the DOE headquarters office.
- During testing, we noted that the HSP manager's listing for the sample selection included 41 permits that were identified as belonging to an incorrect district. Also, we found 57 permits at the districts that were not in the HSP master listing. The master listing identified 561 permits pertaining to the districts tested during the audit period. This resulted in an error rate of 17

**Finding 7 -
(Continued)**

percent. Good business practices dictate that master listings reconcile with sub-listings.

The DGS' Fleet Handbook requires an annual report from State agencies on all HSPs. As a result, the HSP report submitted to DGS was inaccurate.

Recommendation

We recommend that DOE implement procedures to ensure that all of the Department's HSPs are accurately tracked. Also, the HSP manager should reconcile the DOE's HSP listing to the district HSP coordinator's listings quarterly to ensure current and accurate accounting of all HSPs.

DOE Response

DOE agreed with the finding and is working towards implementing the recommendation. Please see Attachment 1 to this report for the complete response.

CENTRAL REGION SPECIFIC

**Finding 8 -
Noncompliance
With Permits Held
by Survey
Employees in the
Central Region**

In the Central Region, Project Development Division, Office of Design VI (Design), HSPs are issued to field survey employees when they are initially hired in case the permit is needed. This is done to avoid having to track the nights a vehicle is actually stored at home. If the nights are not tracked, there is no assurance that the permit is needed. Design has 91 field survey employees, of which 63 (69 percent) have permits. Good business practices dictate that adequate control be maintained of permits issued to employees.

In addition, all permits issued to field survey employees in the Central Region are Type C, designated for Operational Efficiency. By using Type C Permits, Design is bypassing the established control of the CBA that is required for Type B Permits. Design staff stated that it is difficult to complete the CBA since employees are always traveling to different places. However, the appropriate permit is Type B, since Type B Permits are issued only to field employees in Construction, Surveys, Material Testing, or Structures Construction, per the Guidelines.

Recommendation

We recommend that the Central Region follow the control procedures established for the HSPs.

**District 6
Response**

District 6 disagreed with this finding, but is planning to follow the revised HSP Deputy Directive and HSP Guidelines proposed by the HSP Task Force. In addition, District 6 will conduct an internal audit of all HSPs within the Central Region. Please see Attachment 2 to this report for the complete response.

A&I Comments While we do not agree with District 6's response to the finding, we are pleased with the corrective actions proposed.

Audit Team Laurine Bohamera, Chief, Internal Audits
Zilan Chen, Audit Supervisor
Luisa Ruvalcaba, Auditor
Mohammad Eslamian, Auditor

ATTACHMENT

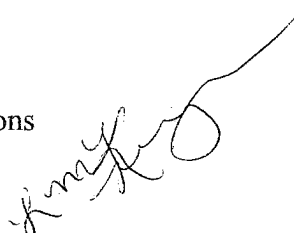
DIVISION OF EQUIPMENT RESPONSE TO THE DRAFT REPORT

Memorandum

*Flex your Power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Audits and Investigations

Date: January 26, 2009

From: LISA M. KUNZMAN 
Chief
Division of Equipment

Subject: Home Storage Permit (HSP) Audit Response

I am pleased to provide our response to Audits and Investigations' report entitled *P3000-374 Home Storage Permit Audit December 2008*. Submission of this response constitutes our report requirement subsequent to the audit.

As mandated by Section 20000 of the State Administrative Manual, this internal audit was performed for the 2008-2009 cycle. The resulting audit report yielded the following eight findings in regards to the Home Storage Permit Program:

Finding 1 – Overall Administration of the HSP Program Needs Improvement

Finding 2 – Inadequate Controls over Permit Issuance and Renewal

Finding 3 – Home Storage Permit Guidelines and Communication Need Strengthening

Finding 4 – Questionable Permit Issuance

Finding 5 - Noncompliance with Personal Use of State Vehicle Reporting Requirements

Finding 6 – Recording and Management of Vehicle Usage Needs Improvement

Finding 7 – Inaccurate Tracking of Home Storage Permits

Finding 8 - Noncompliance with Permits Held by Survey Employees in the Central Region

We have addressed all findings and have included them in the attached document. Should you have any questions or require additional information, please contact Walter Menda at (916) 227-9705 or me at (916) 227-9600.

Attachment

c: MMiles, Maintenance and Operations
LBohamera, Audits and Investigations

**Division of Equipment
Response to Audit Report
P3000-374 – Home Storage Permit Audit – December 2008**

Finding 1 – Overall Administration of the Home Storage Permit (HSP) Program Needs Improvement

Recommendation:

We recommend that DOE improve the overall administration and monitoring of the HSP Program.

DOE Response:

The Division of Equipment (DOE) agrees with the assessment that the administration and monitoring of the HSP Program requires improvement. The HSP Task Force along with the HSP automation project were formed to address these concerns. Currently, recommendations from the HSP Task Force addressing these issues are with the Steering Committee awaiting approval. Upon approval, these recommendations will revise current policies and procedures, which along with the automation of the HSP process, provide DOE and program management with the tools to better administer and monitor HSPs.

Finding 2 – Inadequate Controls Over Permit Issuance and Renewal

Recommendation:

1. Establish and maintain adequate controls and monitoring over permit issuance, continuing permit need, and renewal, including:
 - Limit the use of HSPs by requiring that permit requests be evaluated and approved based on the established criteria for the type of permit being requested
 - Re-evaluate if all existing permits issued are in the best interest of the State, contain the required approvals per the California Code of Regulations (CCRs), and have the adequate documentation to substantiate issuance.
 - Work with the districts to ensure that the required periodic HSP reviews actually occur and that copies of the review reports be provided to management and DOE.
2. Revise the Guidelines to require adequate documentation to substantiate permits issued, and to be consistent with the CCRs, as follows:
 - Incorporate the consideration of timely response to emergencies when issuing permits.
 - Revise the Cost Benefit Analysis (CBA) to reflect a true “cost benefit to State” that is adequately supported.
 - Establish procedures to follow when permits need to be cancelled, revoked, or updated due to a change in the permit holder’s circumstances.
 - Require permit type identification at the time the request for permit is submitted.

DOE Response:

The revision of the Vehicle Home Storage Permits Deputy Directive DD-28-R2 and HSP Guidelines will incorporate the updated policies and procedures that will improve the HSP Program permit process via incorporation of the following:

- The Vehicle Home Storage Request/Permit Form (STD. 377) will be revised to require appropriate permit type justification and two levels of approval. The secondary approval will be elevated to the District Director level.
- The STD. 377 will be revised to reflect permit type and other pertinent information not included in the older version. This new version will be incorporated into the new HSP on-line system.
- The HSP on-line system will allow management to cancel, revoke, or update permits and generate reports for reviewing and validating purposes.
- Justification for Type A permits will include a minimum of 12 call-outs a year, response time of 30 minutes, and located within 25 miles. Any exceptions shall be documented.
- All call-outs shall be recorded and reviewed at least annually for types of permits using the call-out criteria. Call-outs can be recorded on the DM-0090 "Log of Emergency Trips" form or electronically.
- The Cost Benefit Analysis for type "B" permit is under revision to reasonably verify if there is a cost benefit to the State.
- New guidelines are under development for Type C permits ensuring that they are issued in the best interest of the State. The guidelines will be more restrictive and require proper justification and documentation.

Finding 3 – Home Storage Permit Guidelines and Communication Need Strengthening**Recommendation:**

1. Revise the Guidelines and forms to adequately document the HSP requirements and procedures, including clarifying the roles of the HSP coordinator in the submittal of PM-0041s and the monitoring of Car Tags.
2. Improve communication of the Guidelines throughout the Department and provide adequate training to all staff involved in the HSP Program, including HSP holders and approvers.
3. Educate HSP holders of their responsibility to represent the State in a professional and business-like manner. HSP holders should be courteous to other drivers on the road, drive in a safe and lawful manner, and not park State vehicles at locations that potentially could cause the Department negative exposure.

DOE Response:

The revision of the Vehicle Home Storage Permits Deputy Directive DD-28-R2 will clarify the roles and responsibility of the different levels of Department employees. The HSP Guidelines will incorporate the updated policies and procedures that will address the Personal Use of State Vehicles Form (PM-0041) requirements and Car Tag vehicle usage requirements. Updating the STD. 377 to include the following provides more concise guidance: “Approval of this Home Storage Permit (HSP) authorizes the first line supervisor to allow the employee to store a vehicle at home beyond the permitted 36 times per quarter or 72 times per year. If the employee’s work assignment changes, the first line supervisor and the employee are expected to ensure the conditions of the permit are satisfied or to take appropriate measures when changes occur. The approval of this permit shall not be considered as approval for continuous office to home commute. Supervisor and employee are reminded of the tax reporting requirements for the personal use of State vehicles on Form PM-0041.”

On-line training is in development and will be an annual requirement for all HSP holders and approvers. Materials to be covered will include but not limited to Vehicle Home Storage Permits Deputy Directive DD-28-R2, the HSP Guidelines, tax reporting requirements, and call-out logs. Completion of the training will be done in conjunction with HSP renewal and recorded electronically via the HSP on-line system.

Finding 4 – Questionable Permit Issuance**Recommendation:**

1. Strengthen the controls over permit issuance and require adequate documentation to ensure permits are substantiated with valid reasons.
2. Work with district management to ensure staff, particularly at the managerial and supervisory level, has a justified need to hold an HSP.

DOE Response:

The HSP on-line system will require appropriate permit type justification and two levels of approval. The California Code of Regulation (CCR) Title 2, Division 1, Chapter 3, Subchapter 1, Article 15, Section 599.808 (d) requires HSP approval by the department head, a deputy, or the chief administrative officer. This new procedure will require a higher 2nd line signature to approve the HSP, which will be at the District Director level. The updated policies and procedures requiring adequate permit type justification along with District Director approval addresses the questionable permit issue.

Finding 5 – Noncompliance with Personal Use of State Vehicle Reporting Requirements**Recommendation:**

We recommend that DOE work with district management to ensure the accurate and timely reporting of personal use of State vehicles.

DOE Response:

The HSP on-line system will contain all of the Personal Use of State Vehicles Form (PM-0041) for each HSP holder and provide management with the tools necessary to track, reconcile, and review Personal Use of State Vehicles forms within their district. Only DOE will have the administrative rights to track, reconcile, and review Personal Use of State Vehicles forms on a statewide basis. DOE will reconcile and provide reports to the districts on a monthly basis.

- The PM-0041 will be included in the HSP automation, and managers will be able to view a monthly report, notify individuals who fail to submit the Personal Use of State Vehicles forms via e-mail, and take appropriate corrective action.
- Employees who fail to submit the monthly PM-0041 shall have their HSPs cancelled unless they are exempt from the reporting requirements.

Finding 6 – Recording and Management of Vehicle Usage Needs Improvement**Recommendation:**

1. Implement new procedures for Car Tags to be used as an effective monitoring tool for the HSP Program, including providing instructions for completing storage location, usage and purpose of trip and enabling district staff access in obtaining vehicle usage reports.
2. Ensure accurate input of vehicle usage and ongoing monitoring of vehicle usage for HSP Program purposes.

DOE Response:

Although DOE agrees with the recommendations denoting the importance of inputting and monitoring vehicle usage, there is an established process where supervisors/managers are responsible for administering and monitoring vehicle usage, separate from the HSP process. The Car Tag system was developed to automate the paper process of obtaining the vehicle usage information required by the California Code of Regulations section 599.807, which in part reads, "Each state agency shall maintain an automobile log with a record of daily mileage traveled, date and time of travel, itinerary, and information regarding overnight storage and shall identify the driver. The records shall be completed on a daily basis."

This vehicle information is input into the Car Tag system via an online web interface, which provides step by step instruction and the ability to obtain vehicle usage reports. It should be noted, that only information on vehicles that are input into the Car Tag system is available and the online information is available for the current DGS reporting cycle that runs every six month. The prior vehicle usage data can be obtained from DOE Fleet Services unit.

The revised Vehicle Home Storage Request/Permit Form (STD. 377) provides guidance and reinforces the importance of inputting vehicle usage. Another future means of collecting vehicle usage information and monitoring the program would be using Global Positioning System (GPS) technology. A pilot program to test this technology is being recommended by the HSP Task Force.

DIVISION OF EQUIPMENT SPECIFIC

Finding 7 – Inaccurate Tracking of Home Storage Permits

Recommendation:

We recommend that DOE implement procedures to ensure that all of the Department's HSPs are accurately tracked. Also, the HSP manager should reconcile the DOE's HSP listing to the district HSP coordinator's listings quarterly to ensure current and accurate accounting of all HSPs.

DOE Response:

The HSP on-line system will contain all of the HSPs and provide management with the tools necessary to track, reconcile, and review HSPs within their district. Only DOE will have the administrative rights to track, reconcile, and review HSP on a statewide basis. DOE will reconcile and provide reports to the districts on a quarterly basis.

CENTRAL REGION SPECIFIC

Finding 8– Noncompliance with Permits Held by Survey Employees in the Central Region

Recommendation:

We recommend that the Central Region follow the control procedures established for the HSPs.

Central Region Response:

Please refer to the attached document.

ATTACHMENT

**DISTRICT 6 RESPONSE
TO THE DRAFT REPORT**

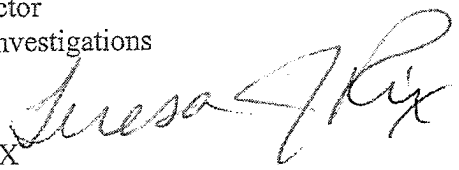
Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Audits and Investigations

Date: January 23, 2009

From: TERESA RIX
Acting, Deputy District 6 Director
Administration



Subject: Draft Audit Report – Home Storage Permits

The purpose of this memo is to respond to finding eight of the Draft Home Storage Permits (HSP) Audit dated December 2008. Finding eight details, two specific deficiencies regarding the use of HSP by Survey Employees in the Central Region.

- #1. The first finding is that Surveys is inappropriately issuing home storage permits to every field employee without tracking the actual number of nights the vehicle is stored at the employee's home.
- #2. The second finding is that Surveys should be using a Type B permit with a cost benefit analysis instead of the Type C permit now being issued.

Finding #1:

- Permits are issued to survey employees annually when it appears that they will meet or exceed the 72-night rule and only after consultation with the first line supervisors. This is done after considering the location of the employees' home, headquarters and anticipated work sites.
- Permits are not issued to all employees and no permits are issued to employees who clearly will not meet the requirements. There is no language in the guidelines requiring tracking of actual nights of home storage. The only requirement is that a permit must be issued if the 72-night rule is met. There is no prohibition in the guidelines against issuing home storage permits for less than 72 nights.
- When Surveys issue permits annually, we base the need on the criteria and reviews noted above, we believe that we are performing at a standard higher than what is required in the guidelines. By issuing permits in this manner, we have guaranteed that no employees will be in violation of the 72-night rule. All of the other permit requirements related to record retention and reporting are also being satisfied. Car books and form PM-0041 are being submitted as required.

Gerald A. Long
January 23, 2009
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Finding #2:

- There is no language in the guidelines that precludes Surveys from issuing the Type C permit. The five criteria listed describe exactly the working conditions survey's experience. According to the HSP Guidelines the Type B permit is for Construction and Construction Support.
- Surveys does much more than just construction support including, Design Surveys, Right of Way Surveys, Monumentation Surveys, Encroachment Surveys, and Tort Claim Surveys. The Survey field crews go to multiple job sights, sometimes several in one week.
- As such, the standard cost benefit analysis, which relies on one work site, is inappropriate. In the Type C permit operational efficiency cost savings is the only consideration when issuing a permit. By having crews report directly to the worksite we realize a cost savings by eliminating the time required for assembly at the District Office at the beginning and end of the work shift. This is our primary consideration and if a vehicle is taken home it is to increase production by getting crews to the worksite faster.

There is currently a HSP Task Force addressing all of the findings of the audit. One of the recommendations of the Task Force is to create a Type D permit specifically for the operational needs of Surveys. Along with participating in the creation of this new permit type, our plan is to issue the new permit as soon the HSP regulations are implemented.. Our understanding is there will be other changes in the HSP Guidelines to clarify and automate reporting requirements. As soon as those requirements are known, we will take immediate action to be in compliance. Our progress in making these changes will of course be dependent on how quickly the recommendations of the Task Force are implemented.

The Central Region HSP Coordinator and staff will complete an internal audit of all paperwork of Survey crews in the Central Region. This audit will occur within 60 days of the submittal of this response and acceptance. During the audit, staff will seek to review procedures, paperwork, and need, then make those findings available.

Please contact Michael Wagner, Office Chief for Design VI (Surveys), at (209) 948-7897, or Teresa Rix, Acting Deputy District 6 Director, Administration at (559) 488-4060, if you have any questions regarding this information.